

City of Lakeland Broadband Business Plan

Presentation to City Council

August 5, 2019



Broadband Business Plan Project Timeline



Deployment Options

Fiberhoods

1

Service available based
on number of customers
that sign-up in each area

- 3-5 Years
- Up to 20,000 Homes
& Businesses

Citywide

2

Service available to
homes and businesses in
the City limits

- 3-5 Years
- Up to 44,000 Homes
& Businesses

Citywide + County

3

Service available to
homes and businesses in
the City limits and
County

- 3-7 Years
- Up to 112,000 Homes
& Businesses

Key Assumptions in Each Option

- FIOS overbuild is optional in all models
- Triple-play services offered in all models
- 38% residential take rate, 41% commercial take rate
- Year 1: Engineering, funding, organizational structure, key hires
- Year 2: Construction, building operations, main hiring
- End of Year 2: First services available
- Years 3 – Beyond: Additional construction phases, operational scaling
- Standard pricing based on market research
- O&M costs estimated with annual escalators
- Staffing costs using industry standard rates, plus a 35% overhead (Lakeland's rate)
- Renewal and replacement – 7, 10, 20 and 25 year cycles based on asset lifetime
- Financing: 20 year, annual payment of P&I, 4% rate, 1% cost of issue
- Reserves: Operating reserves set as a percent of revenue

Key Assumptions in Each Option

Operations	Insource	Outsource
General Management	✓	
Engineering		✓
Project & Construction Management		✓
Call Center	✓	
Customer Service	✓	
Billing	✓	
Finance & Accounting	✓	
Sales & Marketing	✓	✓
Plant & Equipment Maintenance		✓
Warehousing & Inventory Management		✓
Customer Installations		✓

Services & Pricing (38% Expected Take Rate, Triple-Play Services)

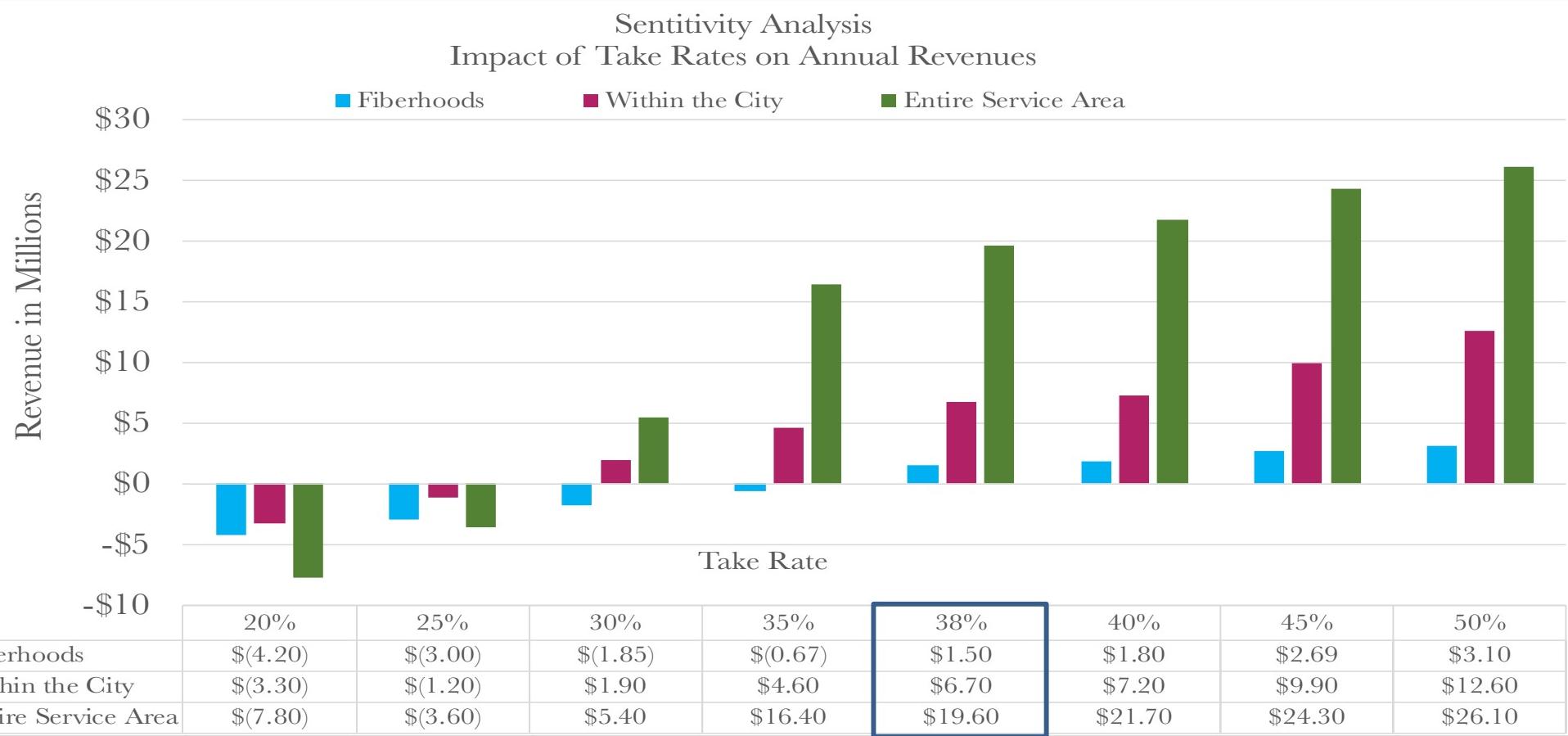
Services	Monthly Price
Internet Only	
25 Megabit	\$19.99
200 Megabit	\$49.99
400 Megabit	\$59.99
1 Gigabit	\$99.99
Double-Play Value (200 Megabit Internet + Basic Television)	\$74.99
Double-Play Preferred (400 Megabit Internet + Expanded Digital Favorites Television)	\$134.99
Double-Play Premium (1 Gigabit Internet + Premium Television)	\$164.99
Triple-Play Value (200 Megabit Internet + Basic Television + Home Phone)	\$119.99
Triple-Play Standard (400 Megabit Internet + Expanded Digital Favorites Television + Home Phone)	\$174.99
Triple-Play Premium (1 Gigabit Internet + Premium Television + Home Phone)	\$199.99

Excludes taxes & fees. Taxes and fees for City broadband services will be at the same levels as what the competition passes through to customers today

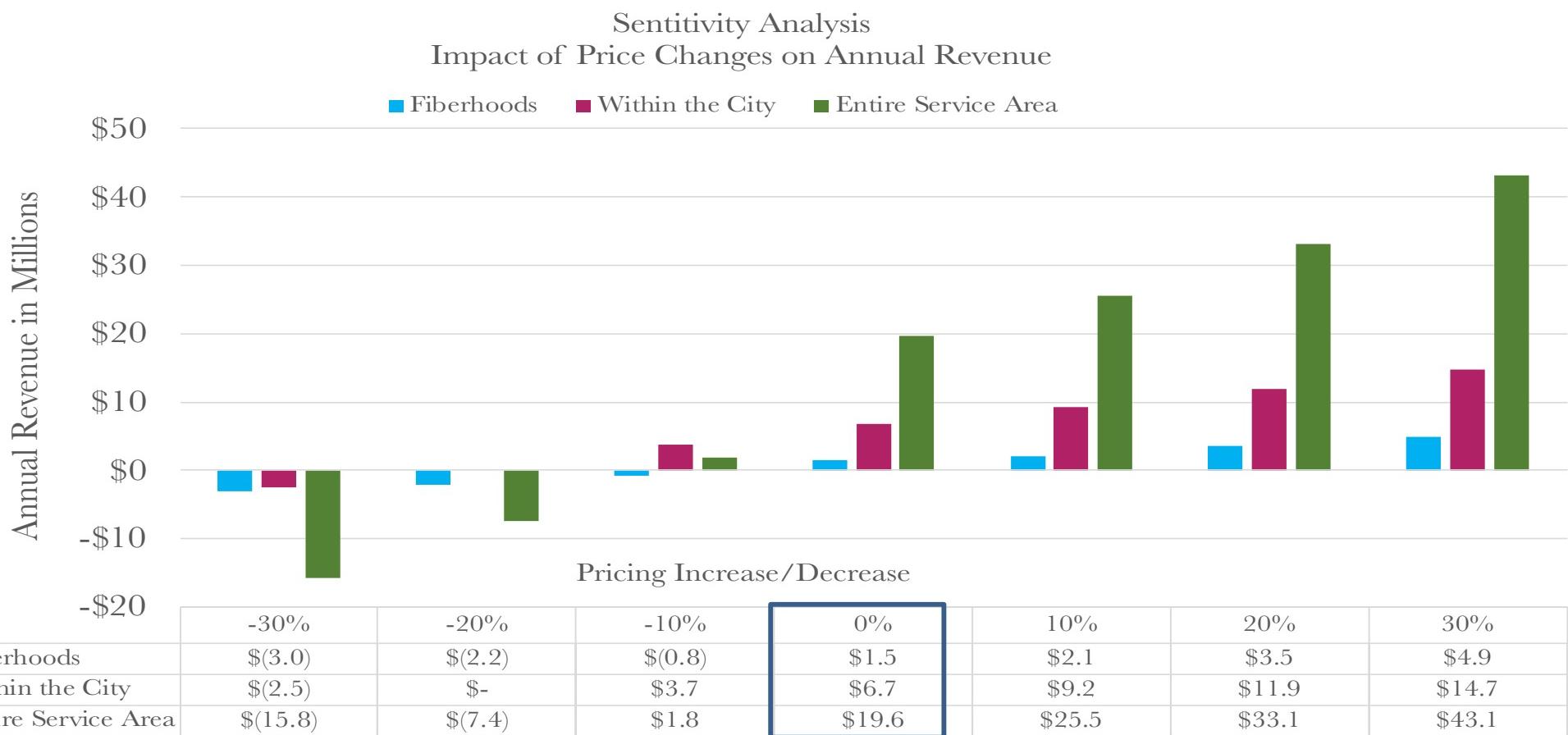
Financial Results – Comparing the Three Options (38% Expected Take Rate, Triple-Play Services)

Financial Metrics	Within the City Fiberhoods	Within the City (No FIOS)	Within the City (With FIOS)	Entire Service Area
Total Investment	\$51,257,896	\$89,500,000	\$96,844,759	\$226,556,691
Revenues Exceed Expenses	4-7 Years	4-6 Years	4-7 Years	9-10 Years
Annual New Revenue to the City	\$1,500,000	\$6,700,000	\$10,500,000	\$18,900,000

Sensitivity Analysis – Take Rate Adjustments



Sensitivity Analysis – Price Adjustment



Financial Results – Other Options To Consider

- Could the City offer other options?
 1. Internet and phone only, no television
 2. Aggressively priced gigabit internet and phone only
- Why?
 - Some communities provide only internet and phone without television
 - Pros: less complex, lower operational costs
 - Cons: lower take rates, incomplete packages
- Another alternative
 - Some communities provide low priced gigabit internet and phone
 - Pros: drives higher take rates, promotes digital equity
 - Cons: Higher take rates must offset lower prices to be sustainable

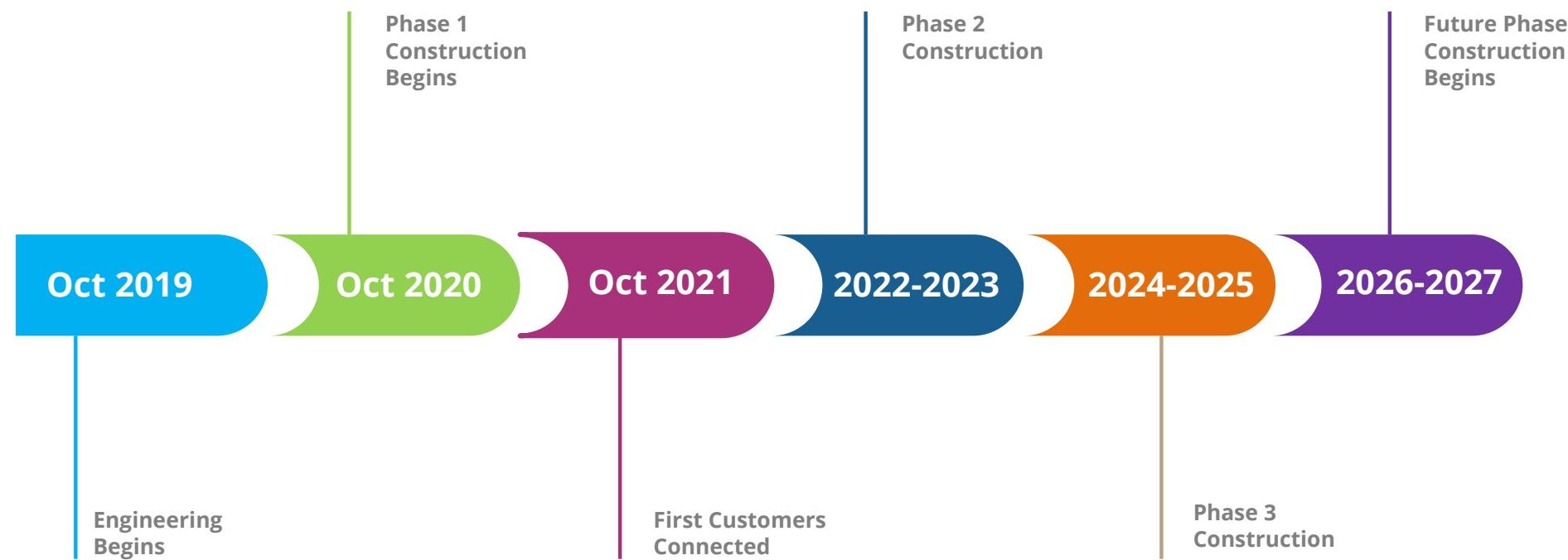
Financial Results – Other Options

Financial Metrics	Within the City (No FIOS) ORIGINAL	Internet & Voice Only (No Television)	Gigabit Founding Member (Longmont Model)
Expected Take Rate	38.07%	30%	60%
Total Investment	\$89,500,000	\$95,000,000	\$95,000,000
Revenues Exceed Expenses	4-6 Years	4-7 Years	8-9 Years
Annual New Revenue to the City	\$13,000,000	\$5,500,000	\$5,500,000

Financial Results – Comparing the Three Options (38% Expected Take Rate)

Investment Category	Fiberhoods	Within the City (No FIOS)	Within the City (Adding FIOS)	Entire Service Area
Service Area	20,000 Homes & Businesses	35,000 Homes & Businesses	44,000 Homes & Businesses	96,000 Homes & Businesses
Fiber Feeder/Distribution	\$25,961,711	\$47,440,153	\$53,308,812	\$135,030,623
Fiber Service Drops	\$5,213,824	\$14,607,806	\$14,607,806	\$42,781,288
Equipment & Implementation	\$5,281,300	\$10,400,980	\$10,877,080	\$23,944,780
Building Improvements	\$550,000	\$800,000	\$800,000	\$800,000
Total Capital Costs	\$37,006,835	\$73,248,939	\$79,593,698	\$202,556,691
Working Capital	\$14,251,061	\$16,251,061	\$17,251,061	\$24,000,000
Total Investment Required	\$51,257,896	\$89,500,000	\$96,844,759	\$226,556,691

Simple Implementation Roadmap (Sample Only)



Detailed Implementation Roadmap



Overview of the Options

- Option 1: Fiberhood Deployment
 - City segmented into 20+ geographic fiber zones
 - Costs, number of customers and payback are known for every fiberhood
 - City solicits signups in each fiberhood
 - When a fiberhood reaches the signup rate, the City builds
 - Each zone can have a different signup rate, based on costs
 - Buildout could be limited to a certain amount each year, controlled by City
 - For example:
 - The City needs 2,000 out of 8,000 households to signup to generate enough revenue to pay back the investment
 - Estimated 3 zones per year over 4 years, 50% of the City deployed
 - The deployment could be lower or higher, based on demand
 - This creates uncertainty for deployment
 - If every zone meets the signup rate, how does the City buildout?

Overview of the Options

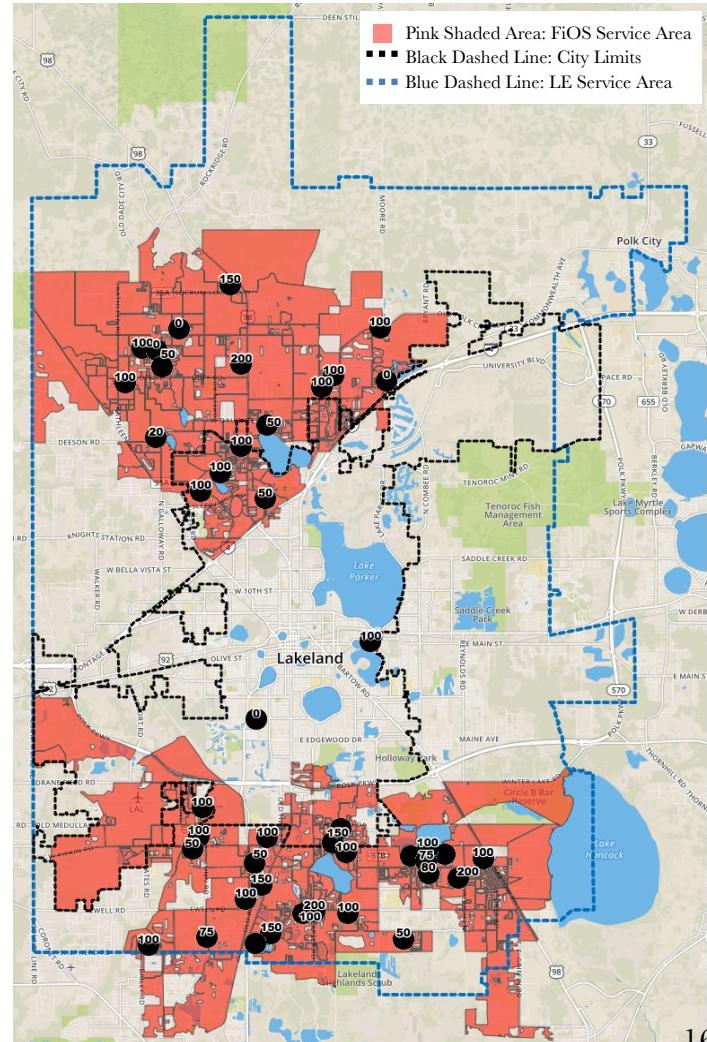
- Option 2: Citywide Deployment
 - Covers the entire City
 - 9,000 homes/businesses are in FIOS territory
 - 35,000 homes/businesses are not in FIOS territory
 - City could choose whether to build to these premises now or later
 - Perhaps build to them after the other areas have been deployed
 - Magellan has modeled it both ways
 - First year includes startup activities and engineering
 - Years 2-5 include construction for non-FIOS zones
 - Years 6-7 include construction for FIOS zones (optional)

Overview of the Options

- Option 3: Citywide & County Deployment
 - Covers City and portions of the County
 - Fiber within the City
 - Fiber in denser areas of the County
 - Wireless in less dense areas of the County
 - City can select whether to deploy in FIOS areas
 - For both the City and County
 - Wireless would not be deployed where FIOS exists
 - Not a competitive service with FIOS

FIOS – Should the City Overbuild?

- Map illustrates FiOS service areas
 - Red shaded areas show FiOS according to FCC
 - Black dots with numbers show actual FiOS customers and their speeds from market survey
 - FiOS covers a good portion of the LE service area
 - 40,634 total customers
 - 9,011 in the City
 - 31,623 in the County
 - Risky for City to buildout in areas where FiOS is already entrenched
 - Very few cases of multiple competing FTTH networks in a single market
 - Frontier could reduce its prices since it's plant is already partly depreciated
 - Result is lower uptake for Lakeland
- Uncertain future for the FiOS network. Will Frontier sell, invest or maintain it?



City of Lakeland Broadband Business Plan Questions

